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C O N F I D E N T I A L SECTION 01 OF 02 ABU DHABI 001951

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SUBJECT: UAEG PREPARATIONS FOR ROUND TWO OF FTA TALKS

Classified By: Classified by Ambassador Michele J. Sison for reasons 1.  
4 (b and d)

11. (C) Summary: Ambassador and EconChief discussed FTA round two with lead UAE negotiator, MinEcon Sheikha Lubna Al-Qasimi and MinFin FTA coordinator Khalid Al-Bustani on May 1. Sheikha Lubna confirmed the UAEG's commitment to a successful second round, although she predicted that the complexity of the issues and the UAE's economy and political system made third and fourth rounds highly likely for both sides to agree on an FTA that best met the needs of each party. The UAEG has prepared extensively for the second round, bracketing text, identifying potential alternative language and providing explanations of its concerns. End Summary.

Press Highlights UAE Preparedness for FTA Negotiations  
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12. (U) The UAE's English and Arabic press, on May 3, highlighted extensive UAEG preparations for the second round of U.S.-UAE FTA negotiations. The papers, citing a Ministry of Finance spokesman, also noted the close public - private sector consultation highlighting issues to be resolved to ensure progress toward "a FTA that will serve the interests of both countries." The articles also focused on the benefits of an FTA to the UAE economy.

Sheikha Lubna leads Delegation, Governor Al-Suwaidi Deputy  
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13. (SBU) During the Ambassador's May 1 meeting, Sheikha Lubna confirmed that she would be leading the delegation to the second round of FTA talks in Washington, replacing MinState Finance Khirbash, who is suffering ill health. She confirmed that Central Bank Governor Sultan Nasser Al-Suwaidi would be attending the negotiations as well. (Note: MinState Finance Khirbash has been seriously ill for almost two months and visited London for unspecified tests.) EconChief later asked MinFin A/US Khalid Al-Bustani to explain the likely division of responsibilities between Sheikha Lubna and Al-Suwaidi. Al-Bustani explained that the two would likely focus on their respective areas of strength, with Al-Suwaidi concentrating on the important financial services negotiations. He added that Al-Suwaidi would likely also serve as Sheikha Lubna's deputy and would accompany her to any meetings with AUSTR Novelli or USTR Portman. (Comment: The presence of Al-Suwaidi at the first round of talks greatly facilitated discussion of key issues and moving through the draft text.) Sheikha Lubna stressed to Ambassador that one reason the UAE was bringing such a big team to Washington was to ensure that all of the experts were there.

14. (C) Sheikha Lubna and Al-Bustani both stressed that they were committed to making real progress during the second round of negotiations and looking forward to the meetings. They said that they understood that the Bahraini and Omani negotiations had moved much more quickly than the UAE negotiation, but stressed that the UAE economy was larger and more complicated than that of those two countries. Sheikha Lubna explained that this was one of the reasons that the UAEG was carefully scrutinizing the text. She commented that texts that were appropriate for Bahrain and Oman, might not fit the UAE's situation exactly. In addition, she noted that the federal system of government in the UAE, like that in the U.S., required wide consultation to ensure that any agreement would be implementable. Sheikha Lubna explained that given the issues involved, she believed that a 4th round, would be likely. She stressed that the UAEG was committed to a FTA with the U.S., but wanted to be sure that it understood its commitments and that the FTA met the needs of both parties.

UAE Preparing Hard for Round  
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15. (C) In a separate meeting with Al-Bustani on May 1 to discuss preparations for the round, he showed EconChief a number of UAEG bracketed texts and said that the UAEG would pass them to the U.S. as soon as the negotiating council approved them. Al-Bustani also said that the UAE was prepared to exchange market access offers with the U.S. and that the UAE Commercial Attach in Washington already had these offers. EconChief urged Al-Bustani to have the head

negotiator for market access contact his counterpart to arrange for exchanging the offers, which he agreed to do. Al-Bustani subsequently told Econchief that the UAEG would be forwarding texts and other documents to the USG the week of May 1. On May 2, Ambassador urged Sheikha Lubna to forward the texts as quickly as possible. Some of the texts have been forwarded to USTR and we have forwarded to NEA/ARPI.

#### Higher Council For Economic Development

16. (SBU) Sheikha Lubna explained the role of the new Higher Council for Economic Development in reviewing FTA's. She said that she is the chair of the Council and Sheikh Mohammed bin Zayed is the honorary chair. The membership includes the heads of the economic departments of each emirate. The Council is charged to look at FTAs and economic reforms, including changes to laws and regulations. She added that when the UAE ratified an FTA, the federal government sent it to the rulers of the seven emirates for ratification. The offices of the rulers would then send it to their economic departments for recommendations. Bringing in the economic departments early, she added, improved the UAEG's ability to build consensus behind reforms. Sheikha Lubna noted that the Council would establish a secretariat, which would be housed at the Ministry of Economy.

#### The Text is Important

17. (C) On May 2, EconChief met with William Brown, Senior Legal Advisor to the Abu Dhabi Investment Authority (ADIA) and Dr. Robert Peake, Tax Advisor to ADIA (Protect Both). They stated that ADIA had drafted the UAEG's response to three of the negotiating chapters: Dispute Settlement, Investment, and Financial Services. Brown said that his understanding was that MinFin would forward the Dispute Settlement and Investment chapters to USTR directly. The Central Bank was still reviewing the ADIA proposals on financial services. Brown and Peake would be meeting with the Central Bank on May 3, but thought that they had addressed the Central Bank's concerns. (Note: On May 3, Al-Bustani confirmed that the Central Bank was reviewing the Financial Services text and said that the lawyers were reviewing the proposed changes to the investment and dispute settlement texts.) Brown explained that ADIA as the investment arm and "the ultimate checkbook" for Abu Dhabi, and by extension the UAE, had a number of concerns. For example, ADIA was concerned about whether the FTA would increase ADIA's exposure to potential asset freezes (under the Patriot Act or other U.S. law) or frivolous law suits. Brown noted that he was collecting information on the increase in law suits that followed U.S. FTAs with other countries. For the sake of transparency, he noted, ADIA had addressed its concerns, in the context of the FTA, in side letters to the chapters. He said he understood that some of the issues might not fit into the FTA framework, but that they were all valid bilateral trade and investment issues. The side letters were designed to be separable so that the UAE negotiators could also discuss them with other USG agencies that might be more appropriate. Brown stressed that his goal was to identify the key issues for both sides, work to resolve them and then help senior government officials properly understand the cost/benefit of unresolved issues.

18. (C) Peake noted that some of the UAE negotiators had responded negatively to the U.S.' perceived unwillingness to move from its prepared text. He said that he understood the legal constraints on USTR, but urged that, where possible, the U.S. negotiators look at UAEG concerns with an open mind and try to see how to resolve them, either within the context of an FTA or by referring the issue to other offices in the USG. He suggested that this would be more conducive to concluding an agreement then by declaring something "dead on arrival." Brown said that he and Peake had pushed some of the other negotiators to try and "think beyond" their reflexive resistance to change, by explaining that the USG negotiators would try to understand and deal with legitimate concerns.

#### Differences in Negotiating Style

10. (C) Brown and Peake highlighted cultural differences between the UAEG and USG negotiators. Peak, a long time Abu Dhabi resident, noted that the UAE worked on a Majlis (council) consensus building basis, everyone wanted to be sure that his opinion was considered. The UAE had made a tactical error during the first round by trying to focus first on "big picture concepts" This had been akin to speaking a different language to U.S. negotiators who were ready to negotiate and finalize text.

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